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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

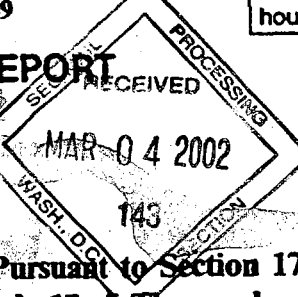
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OMB APPROVAL

OMB Number: 3235-0123
Expires: September 30, 1998
Estimated average burden
hours per response . . . 12.00

SEC FILE NUMBER

8- 23669



REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Instinet Clearing Services, Inc.

OFFICIAL USE ONLY

FIRM ID: NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

875 Third Avenue

(No. and Street)

New York

NY

10022-6225

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Michael Clancy

212-310-9500

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP

(Name — if individual, state last, first, middle name)

1177 Avenue of the Americas

New York

NY

10036

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 29 2002

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THOMSON
FINANCIAL

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, Michael Clancy, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Instinet Clearing Services, Inc., as of

December 31, 19 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

DAWN VOLPONI
Notary Public, State of New York
No. 01VO6042225
Qualified in Queens County
Commission Expires May 22, 2002

Dawn Volpone
Notary Public

2/27/02

Michael Clancy
Signature
Senior Vice President / CAO
Title

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- X (o) Independent auditor's report on internal accounting control.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Instinet Clearing Services, Inc.

(A wholly owned subsidiary of Instinet Corporation)

Statement of Financial Condition

December 31, 2001





PricewaterhouseCoopers LLP
1177 Avenue of the Americas
New York NY 10036
Telephone (646) 471 4000
Facsimile (646) 471 4100

Report of Independent Accountants

To the Board of Directors
and Stockholder of
Instinet Clearing Services, Inc.

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Instinet Clearing Services, Inc. (the "Company"), at December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

January 22, 2002

Instinet Clearing Services, Inc.
(A wholly owned subsidiary of Instinet Corporation)
Statement of Financial Condition
December 31, 2001

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Assets

Cash and cash equivalents	\$ 183,373,094
Securities segregated in compliance with federal regulations	310,419,687
Securities borrowed	332,999,302
Receivable from broker-dealers and clearing organizations	125,283,599
Receivable from customers	65,515,369
Exchange memberships, at cost (market value \$1,290,200)	1,450,583
Other assets	<u>3,382,564</u>
Total assets	\$ 1,022,424,198

Liabilities and Stockholder's Equity

Securities loaned	\$ 201,976,100
Payable to customers	387,038,224
Payable to broker-dealers and clearing organizations	86,528,337
Payable to affiliate	28,131,436
Other liabilities and accrued expenses	<u>31,249,447</u>
Total liabilities	<u>734,923,544</u>

Stockholder's equity

Preferred stock, \$10.00 par value: 100 shares authorized (Series A Preferred Stock, \$10,000 liquidation preference 10 shares outstanding)	100
Capital stock, par value \$1 per share; authorized 10,000 shares, issued and outstanding 8,300 shares	8,300
Additional paid-in capital	241,237,438
Retained earnings	<u>46,254,816</u>

Total stockholder's equity **287,500,654**

Total liabilities and stockholder's equity **\$ 1,022,424,198**

Instinet Clearing Services, Inc.
(A wholly owned subsidiary of Instinet Corporation)
Notes to Statement of Financial Condition

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1. Nature of Business

Instinet Clearing Services, Inc. (the "Company" or "ICS") is a wholly owned subsidiary of Instinet Corporation ("Instinet" or "Parent"), which is a wholly owned subsidiary of Instinet Global Holdings, Inc., which is a wholly owned subsidiary of Instinet Group Incorporated ("IGI"), who is ultimately majority owned by Reuters Group PLC ("Reuters"). The Company is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers, Inc. ("NASD") as well as a member of the American, Boston, Cincinnati, Chicago, Pacific and Philadelphia Stock Exchanges, the Chicago Board Options Exchange and Euronext N.V..

The Company provides securities clearance, customer financing and securities lending services. The Company, as a clearing broker, carries accounts and clears transactions for customer cash and margin accounts, for correspondent accounts on a fully disclosed basis and for proprietary trading accounts of correspondents. In addition, the Company acts as clearing broker for the customer activity of Instinet and other affiliates on a fully disclosed basis.

2. Significant Accounting Policies

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

Securities transactions

Customer transactions are recorded on a settlement date basis, which is generally three business days after trade date.

Securities owned

Securities owned are recorded on a trade date basis and are carried at market value.

Securities borrowed and loaned

Securities borrowed and securities loaned are financing arrangements that are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash, letters of credit or other collateral with the lender. The amount of collateral required to be deposited for securities borrowed is an amount generally in excess of market value of the securities borrowed. For securities loaned, the Company receives collateral in the form of cash or other collateral that exceeds the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned daily, with additional collateral obtained, or refunded, when deemed appropriate.

Instinet Clearing Services, Inc.
(A wholly owned subsidiary of Instinet Corporation)
Notes to Statement of Financial Condition

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Securities purchased under agreements to resell and securities sold under agreements to repurchase

Transactions involving purchases of securities under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at their contracted resale amounts plus accrued interests. It is the Company's policy to take possession of securities with a market value in excess of the principal amount loaned plus the accrued interest thereon, in order to collateralize reverse repurchase agreements. Similarly, the Company is required to provide securities to counterparties in order to collateralize repurchase agreements. The Company's agreements with counterparties generally contain contractual provisions allowing for additional collateral to be obtained, or excess collateral returned, when necessary. It is the Company's policy to value collateral daily and to obtain additional collateral, or to retrieve excess collateral from counterparties, when deemed appropriate.

Collateral arrangements

At December 31, 2001, the fair value of collateral held by the Company that can be sold or replighted totaled approximately \$607,069,440. Such collateral is generally obtained under resale and securities borrowing agreements. Of this collateral, approximately \$548,487,052 has been sold or replighted, generally to cover short sales or effect deliveries of securities. In addition, securities in customer and affiliate accounts with a fair value of approximately \$76,462,230 can be sold or replighted by the Company.

3. Receivable From and Payable to Broker-Dealers and Clearing Organizations

Accounts receivable from and payable to broker-dealers, clearing organizations and others at December 31, 2001, consist of the following:

	Receivable	Payable
Securities failed-to-deliver/receive	\$ 69,777,903	\$ 55,549,241
Receivable from clearing organizations	36,031,799	-
Fees, commissions and other receivable/payable	<u>19,473,897</u>	<u>30,979,096</u>
	<u>\$ 125,283,599</u>	<u>\$ 86,528,337</u>

At December 31, 2001, included in receivable from clearing organizations was approximately \$29,100,000 of U.S. Government Securities posted as collateral.

4. Receivable From and Payable to Customers

Amounts receivable from and payable to customers include amounts due on cash and margin transactions. Securities owned by customers, other than those fully paid for, are held as collateral for receivables. Such collateral is not reflected in the statement of financial condition.

Instinet Clearing Services, Inc.
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Notes to Statement of Financial Condition

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5. Income Taxes

The Company, together with other IGI subsidiaries in the U.S., files a consolidated federal income tax return. The Company pays or recovers from Instinet the taxes it has recorded, which are calculated on a separate company basis under a tax sharing agreement with IGI. The Company records deferred tax assets and liabilities for the difference between the tax basis of assets and liabilities and the amounts recorded for financial reporting purposes, using current tax rates.

The Company determined that no valuation allowance against deferred tax as of December 31, 2001 was necessary as management believes that it is more likely than not that the tax assets will be realized.

6. Credit, Market and Other Risks

The Company is exposed to substantial credit risk from its customers securities transactions during the period between the transaction date and the settlement date. This period is three business days in the U.S. equities markets and can be as much as 30 days in some international markets. In addition, the Company may have credit exposure that extends beyond the settlement date in the case of a party that does not settle in a timely manner by failing either to make payment or to deliver securities. The Company holds the securities that are the subject of the transaction as collateral for our customer receivables. Adverse movements in the prices of these securities can increase our credit risk. The majority of the Company's transactions and, consequently, the concentration of its credit exposure are with broker-dealers and other financial institutions, primarily located in the United States and Europe. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits and enforcing credit standards based upon a review of the counterparties' financial condition and credit ratings. The Company monitors trading activity and collateral levels on a daily basis for compliance with regulatory and internal guidelines and obtains additional collateral, if appropriate.

The Company uses securities borrowed and loaned transactions to facilitate the settlement process to meet its customers needs. Under these transactions, the Company either receives or provides collateral, generally cash or securities. In the event the counterparty is unable to meet its contractual obligations to return the pledged collateral, the Company may be exposed to the market risk of acquiring the collateral at prevailing market prices.

The Company is subject to operational, technological and settlement risks. These include the risk of potential financial loss attributable to operational factors such as untimely or inaccurate trade execution, clearance or settlement or the inability to process large volumes or transactions. The Company is also subject to risk of loss attributable to technological limitations or computer failures that may constrain the Company's ability to gather, process and communicate information efficiently, securely and without interruption.

Instinet Clearing Services, Inc.
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Notes to Statement of Financial Condition

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7. Short-Term Financing

The Company meets its short-term financing needs by obtaining bank loans on a secured basis. The Company has a secured line of credit (broker's line) of \$200,000,000, and intra day overdraft facilities of \$110,000,000. As of December 31, 2001, there were no outstanding balances on these borrowings. Interest rates on such borrowings are generally negotiated at the time of the transactions and reflect market interest rates. The Company had no short-term borrowings outstanding at December 31, 2001.

8. Related Party Transactions

The Company and its affiliates provide their services in markets outside of the U.S. in cooperation with a number of affiliates of Reuters.

From time to time, the Company enters into securities borrowed transactions on a fully collateralized basis on behalf of its foreign affiliates. At December 31, 2001 included in securities borrowed on the statement of financial condition is \$804,622 related to such securities borrowed transactions.

Pursuant to an operating agreement, Instinet provides the Company with all operational, management and administrative personnel, facilities and other services necessary to conduct its securities processing business.

As mentioned above, the Company generates a significant portion of its revenues from providing clearing services to its affiliates. Also, Instinet provides the Company with ongoing administrative, operational and financial support. Therefore, the Company's financial condition may not necessarily be indicative of those which would have resulted if the Company had been operated as an unaffiliated company.

Substantially all employees of the Company participate in the IGI stock option plan which was adopted in February 2000, and various Reuters retirement plans. Certain employees also participate in a long-term performance-based incentive compensation plan, (together the "Instinet Plans").

9. Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments", requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized on the statement of financial condition. Management estimates that the aggregate fair value of all financial instruments recognized on the statement of financial condition approximates their carrying value, as such financial instruments have been adjusted to reflect their estimated fair value or are short term in nature and bear interest at current market rates.

Instinet Clearing Services, Inc.
(A wholly owned subsidiary of Instinet Corporation)
Notes to Statement of Financial Condition

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10. Regulatory Requirements

The Company is a registered broker-dealer and, accordingly, is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative net capital method, which requires that the Company maintain minimum net capital equal to the greater of \$250,000 or 2% of aggregate debit items arising from customer transactions. At December 31, 2001 the Company had net capital of \$260,221,095, which was \$256,674,164 in excess of its required net capital of \$3,546,931.

The Company is subject to Rule 15c3-3 of the Securities and Exchange Commission. At December 31, 2001 the Company computed the reserve requirement for customers and was required to segregate \$267,941,611 in the special reserve bank account for the exclusive benefit of customers.

The Company also computed the reserve requirement for proprietary accounts of introducing broker-dealers. At December 31, 2001 the Company's calculation required \$20,216,355 to be segregated in the special reserve bank account for the exclusive benefit of our introducing broker-dealer.